27 December 1963

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WEEKLY REVIEW

OFFICE OF CURRENT INTELLIGENCE

CENTRAL INTELLIGENCE AGENCY

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EUROPE

SOVIET TRADE ACTIVITY IN THE INDUSTRIAL WEST

Within a week after the central committee approved Khrushchev's plan for the chemical industry, Soviet traders apparently had their instructions and budget allocations and were renewing their activity in trade circles of the industrial West.

Contracts for fertilizer installations, plastics and synthetic plants, petrochemical equipment, and mining machinery are already in various stages of negotiation. Officials in Bonn report they have under consideration a proposal by a West German consortium to supply the USSR with $400 million worth of petrochemical equipment. A Soviet mission is negotiating with the British Imperial Chemical Industry (ICI), which heretofore has supplied the USSR with technical know-how. ICI reportedly has offered to deliver equipment and processes for the production of fertilizers, herbicides, rubber chemicals, and plastics. Negotiations also are under way for large numbers of Japanese chemical fertilizer plants.

Another Western consortium, involving US equipment and processes, is discussing delivery of a large oil refinery. In addition, contracts for a wide range of other machinery and equipment will probably soon be signed. These contracts apparently had been postponed until the new chemical equipment buying program was presented to the plenum and allocations for various trade corporations for next year were approved.

The Soviet need for additional credit to finance planned expanded purchases is crucial. The USSR presumably can generate sufficient funds to meet down payments on sizable orders. However, credit arrangements must be set now to spread out the heavy crush of payments which otherwise would fall due in 1965-66 when equipment contracted for next year will be delivered.. Soviet ability to increase hard-currency reserves is not likely to improve in the near future. Moscow's current grain imports will reduce its gold reserves by 25 percent. If these continue beyond mid-1964, the Soviet hard-currency position will be under further strain.

Despite the bleak foreign exchange prospects for the USSR, Soviet officials appear hopeful that Western competition for Soviet orders will be adequate to foster Western governmental and banking opinion favorable to more and longer term credit. Moscow may also hope that a continuation of its relatively restrained foreign policy will be helpful in this context. While viewing the USSR as an acceptable commercial risk, the banking community has heretofore been unwilling to extend credits beyond a five-year period because of uncertainty about future political developments. (SECRET)

CHINESE COMMUNIST LEADERS' AFRICAN TOUR

With two weeks of their projected two-month tour of Africa completed, Chou En-lai and Foreign Minister Chen Yi can claim high marks for their efforts to project an aura of Afro-Asian amity and to identify Peiping with African aspirations. There is no evidence, however, that they have scored any comparable success in the political or economic fields.

The joint communiqué issued on 21 December at the conclusion of the Chinese leaders' visit to Cairo contains few surprises, and reports from Algiers suggest that discussions with Ben Bella are following predictable lines. Thus far the Chinese have attempted to minimize differences, play up past contacts, and press such themes as militant struggle against colonialism and "US imperialism."

In both Algiers and Cairo, Chou's hosts sought to demonstrate their nonalignment by actions designed to play down the impact of the Chinese leaders' arrival. Chou was greeted in Cairo with a 21-gun salute, but Nasir was not on hand. In Algeria, Ben Bella was on hand to greet his guests, but the top-level delegation he sent to the Soviet Union just before Chou's arrival is receiving more publicity than the Chinese guests.

It has become increasingly apparent that a major objective of the trip has been to undercut Soviet influence throughout the continent. Criticism of the USSR was reportedly a recurrent theme in Chou's four lengthy talks with Nasir. Nasir reportedly said that Chou talked about the USSR the way the Soviets used to talk about the US. He accused the Soviets of trying to colonize China, of breaking political and economic promises, and of becoming tools of the US, and he warned that any Afro-Asian country which became dependent on Moscow would suffer the same fate as Peiping.

In Algeria, Chou sounded a similar note. He cited China's early support for Algerian revolutionaries--support which actually pre-dated that of the USSR. He has also undoubtedly scored Soviet unreliability. The Chinese may be pressing the Algerians to use some of the $50-million credit offered in October. This offer was made to counter a $100-million Soviet credit offered earlier the same month.

Sino-Soviet rivalry for African support also flared at the UN, where Peiping outmaneuvered Moscow on the question of enlarging the representation in principal UN organs to accommodate the African bloc. Soviet delegate Fedorenko had attempted to make it appear that the Chinese were opposed to the African-sponsored expansion plan because they insisted that any change in the UN be tied to Peiping's own admission to the Security Council. The USSR found itself holding a suddenly emptied bag,

however, when Peiping loudly repudiated Fedorenko's statement and accused the Soviets of using the issue as a pretext for opposing Afro-Asian demands.

Chou can be expected to capitalize on this during next week's visit to Morocco and in subsequent stops in Guinea, Ghana, and Mali. No details of Chou's itinerary beyond Rabat have been made public by Peiping. Such secrecy may well be prompted by security considerations. Chinese officials were apparently seriously shaken by the abortive plot to kill Liu Shao-chi in Cambodia last spring. The Chinese envoy in Cairo reportedly told Nasir of concern for Chou's safety and asked that travel plans during the Chinese leader's visit to the UAR not be made public. (SECRET NO FOREIGN DISSEM)

EAST GERMAN REACTION TO RELAXATION OF BERLIN TRAVEL

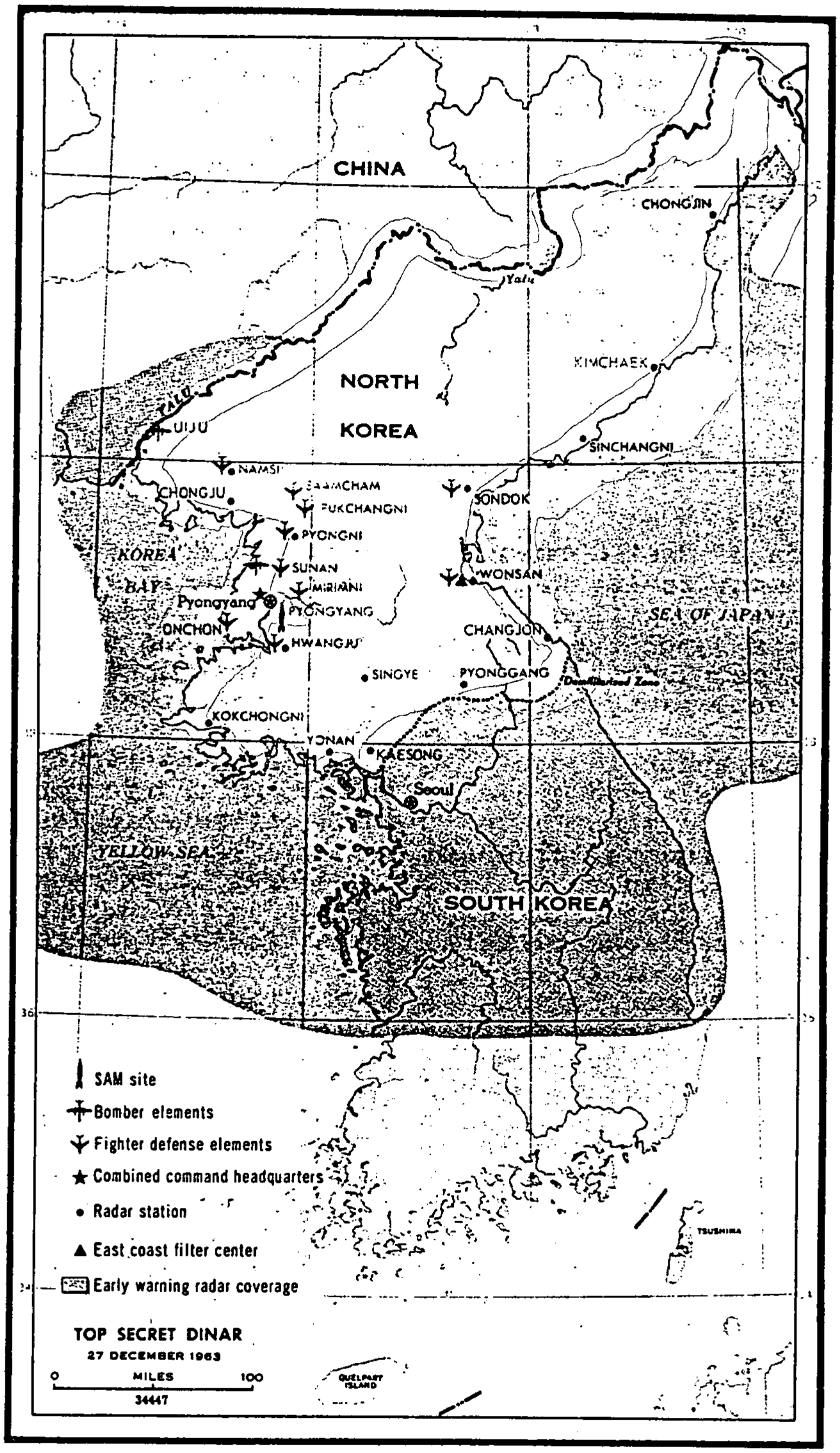
Reaction of East Germans to the agreement to let West Berliners visit relatives in East Berlin is hopeful but still fairly cautious, judging by reports from local party officials.

The party central headquarters, obviously concerned that the agreement might have domestic repercussions, ordered district officials to submit immediate reports and detailed follow-ups on reactions to this partial relaxation of travel curbs imposed in connection with the building of the Berlin Wall. Most of the responses state that the people are elated but are publicly voicing hope that they may be permitted to visit their relatives in West Berlin and West Germany. Many East Germans express hope that the present move will be followed by other relaxations--a reaction probably quite unpalatable to the regime.

Public comment--at least as reported by the various party headquarters--is still fairly cautious: One party member in Magdeburg said: "The reason we don't let our citizens go to West Germany is that we are afraid they will defect." But he was promptly silenced by comrades who parroted the party line on "the terror against our GDR citizens in West Germany."

Public expression of dissatisfaction with harsh travel and internal controls has been recurrent in recent months, reaching a peak prior to the 20 October parliamentary elections.

The people's reaction to the pass agreement with West Berlin points up one of the regime's major problems: how to project an image of itself as a sovereign state and of East Berlin as its capital without increasing discontent among its population, who still risk shooting if they attempt to escape to West Berlin. (SECRET KIMBO)


CHINA
CHONGJIN
Yalu
NORTH
KOREA
KIMCHAEK
UIJU
SINCHANGNI
NAMSI
PUKCHANGNI
CHONGJU
SONDOK
PYONGNI
SUNAN
WONSAN
KOREA
BAY
Pyongyang
PYONGYANG
ONCHON
HWANGJU
CHANGJON
SEA OF JAPAN
SINGYE
PYONGGANG
KOKCHONGNI
YONAN
KAESONG
Seoul
YELLOW SEA
SOUTH KOREA
SAM site
Bomber elements
Fighter defense elements
Combined command headquarters
Radar station
East coast filter center
Early warning radar coverage
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NORTH KOREA IMPROVES AIR DEFENSE CAPABILITY

North Korea has recently taken several steps which significantly strengthen its air defenses. MIG-21 (Fishbed) jet fighters, which were first detected only at Pukchang-ni airfield, now are being stationed at other airfields. Pyongyang has also apparently just acquired a large number of relatively sophisticated types of radar sets. In addition, the North Korean bomber force, which has a total of about 100 IL-28 (Beagle) jet light bombers, is in part now equipped with, and has been training with, an improved blind bombing and navigational system.

Testing of and flight training with the new fighters--10 to 14 of which were apparently obtained from the USSR in the fall of 1962--were first noted in communications intelligence in June 1963. Since that time the MIG-21s have been detected frequently in flight activity involving ground controlled intercept exercises.

Beginning in October, MIG-21s have been noted operating from Wonsan on the east coast of North Korea. Their deployment to this airfield places supersonic fighters on both the east and west coasts of North Korea.

The North Koreans have recently expanded their radar coverage. Six new types of radar, at least one of which is believed to be exclusively of Chinese Communist manufacture, have been detected. For the present these radars will apparently supplement rather than replace North Korea's original three types--Kniferest A, SCR-270, and Token.

The identifiable new types include Kniferest B, Spoonrest A, and a new type of Chinese Communist origin which is probably a substantial modification of the SCR-270. Spoonrest A is sometimes used as the acquisition radar for surface-to-air missile sites, but it is also used in an early warning role and is probably intended for that use in North Korea. Acquisition of these new radars reflects North Korea's efforts to extend the range of its early warning detection system. To improve height-finding capability, Pyongyang has also introduced more sophisticated radars such as Rockcake and Stonecake.

Another improvement in North Korea's air capability is the equipment of about twenty IL-28s with an improved blind bombing and navigational radar system designated Shorewalk. When properly used, this system permits precision navigation and blind bombing without the use of ground communications which would betray the direction of the flight and the target designation. (TOP SECRET DINAR)

ENTHUSIASM FOR SOUTH VIETNAM REGIME FLAGGING

Communist guerrilla activity increased only slightly in connection with the third anniversary, on 20 December, of the Viet Cong's Liberation Front, despite advance Communist propaganda exhortation for a major military effort. The Viet Cong continued to direct attacks and harassing activities primarily at strategic hamlets.

South Vietnam's new government is showing extreme sensitivity to discussion of a "neutralist solution" to its insurgency problem. The Communists' Liberation Front has repeatedly proposed such a settlement, and the idea is gaining new advocates as a result of Cambodia's call for an international conference. Saigon's military rulers last week closed down a newspaper which was expressing interest in neutralism. However, editorials in the vernacular press, even though attacking neutralism, have kept the debate in the public eye. On 20 December, Saigon students--possibly encouraged by the regime--demonstrated against neutralism.

On the military front, the government is beginning to take some steps to overcome the lethargy that has affected its counterinsurgency effort since the coup. A long-range pacification program has been launched in one of the most troublesome provinces in the northern part of the country, and broad command changes have been introduced in two provinces south of Saigon where security has been deteriorating.

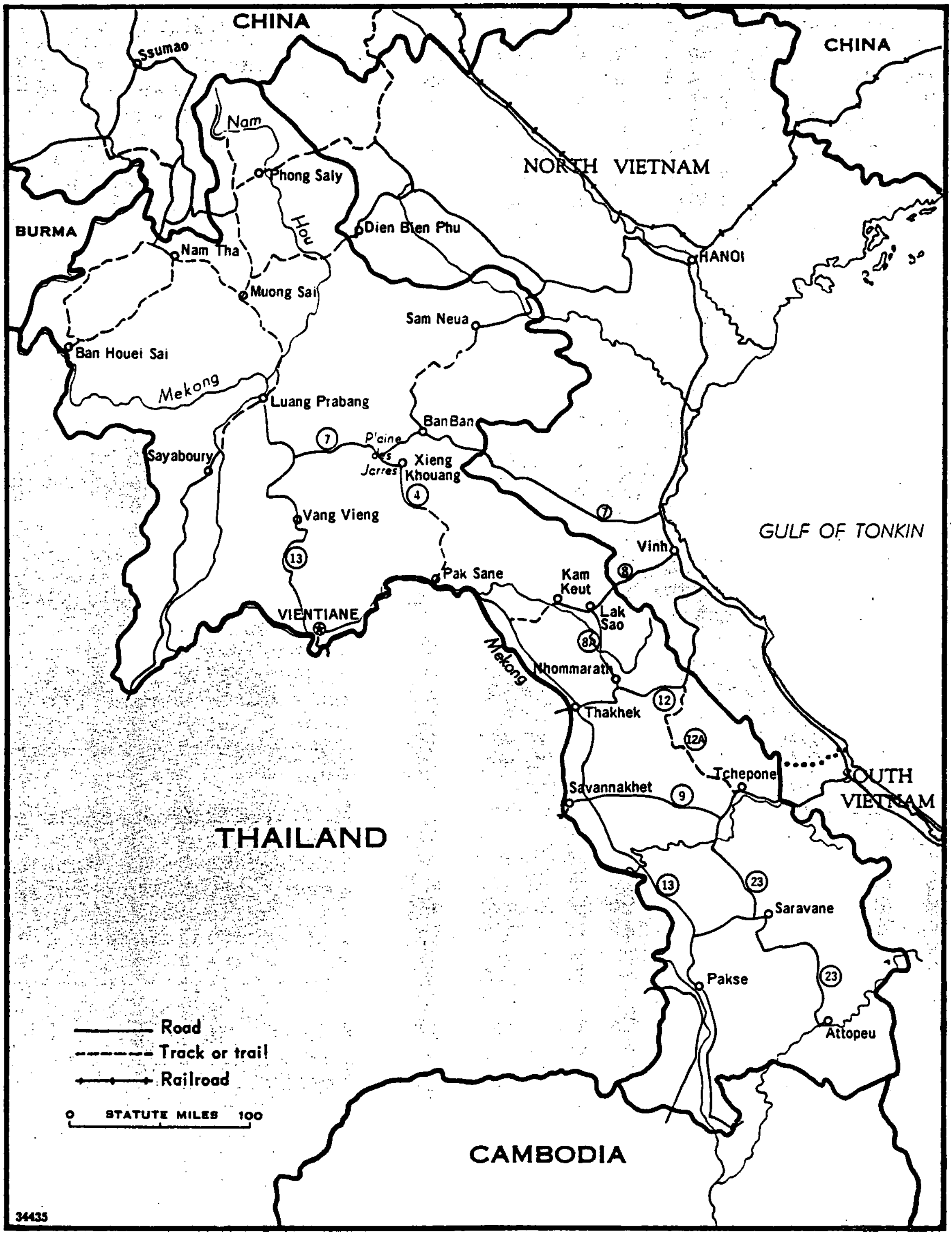
In the political field, the government has named 60 members of the civilian advisory Council of Notables. Returned exiles apparently are not represented, and there is a dearth of direct provincial representation. Many appointees, however, are prominent political, professional and lay religious leaders who could provide effective guidance to the regime if they are given a chance.

Apathy and disenchantment over the new government are widespread among such key elements as middle-grade officers, students and politicians. Criticism centers on the lack of firm direction by the ruling generals, on repeated reshuffling of local officials deemed incompetent, corrupt or close to the Diem regime, and on the rise in Viet Cong activity. There are signs that junta members themselves are beginning to share the disillusionment of some circles with Premier Tho's provisional cabinet, which is described as ineffective and regional in outlook.

Leading generals nevertheless seem to have few effective steps in mind to rally popular support. Three generals recently complained to US officials that they were having trouble finding qualified Vietnamese to fill government positions and that press criticism of their efforts was unhelpful. General "Big" Minh, the chief of state, has indicated a personal distaste for a prominent role, and has asserted that the people would gradually come to appreciate the new government as problems were solved on a province-by province-basis. (SECRET NO FOREIGN DISSEM/BACKGROUND USE ONLY)

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LAOS



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LAOS

Communist forces have moved to erase recent gains made by rightist units in central Laos. Pathet Lao troops, reportedly supported by substantial numbers of North Vietnamese, on 19 December captured Kam Keut and the nearby airfield, three days after occupying the key route junction at Lak Sao. Right-wing messages have described a key rightist parabattalion as "completely smashed." Communist units have advanced south of Lak Sao toward neutralist positions along Route 8-A, but there have been no indications that they intend to press their advantage by a major drive on Nhommarath, which is still held by rightist forces. In other areas, there have been reports of only limited activity, involving scattered skirmishes and artillery exchanges.

Meanwhile, neutralist and Pathet Lao representatives are continuing their efforts to negotiate an easing of tensions between the two factions. At a meeting on 20 December in the Plaine des Jarres, both sides called for an "early" meeting between Premier Souvanna and Prince Souphannouvong. They also agreed, in principle, that elements of the coalition government should be transferred from Vientiane to the royal capital at Luang Prabang, which would be neutralized and placed under tripartite control. Both factions reiterated their support for the formation of a mixed police force in a neutralized Vientiane.

General Phoumi's right-wing faction, which was not represented at the meeting, remains skeptical of Pathet Lao intentions. Phoumi apparently believes that an agreement for the neutralization of Luang Prabang is unlikely, but he may join in talks on the subject. He has indicated, however, that the neutralization of Vientiane is contingent on the willingness of the Pathet Lao to allow free movement in areas of Laos now under their control. (TOP SECRET DINAR)

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FRENCH CABINET MINISTER TO VISIT CAMBODIA

Armed Forces Minister Pierre Messmer's visit to Cambodia from 4-7 January is designed primarily to strengthen French influence there in the wake of Prince Sihanouk's call for an end to the US aid program. Messmer's high-level entourage, which includes the chiefs of the Foreign Ministry's Indochina and Cultural and Technical divisions, will probably recommend some increases in aid, but De Gaulle apparently has no intention of taking on any large new commitments.

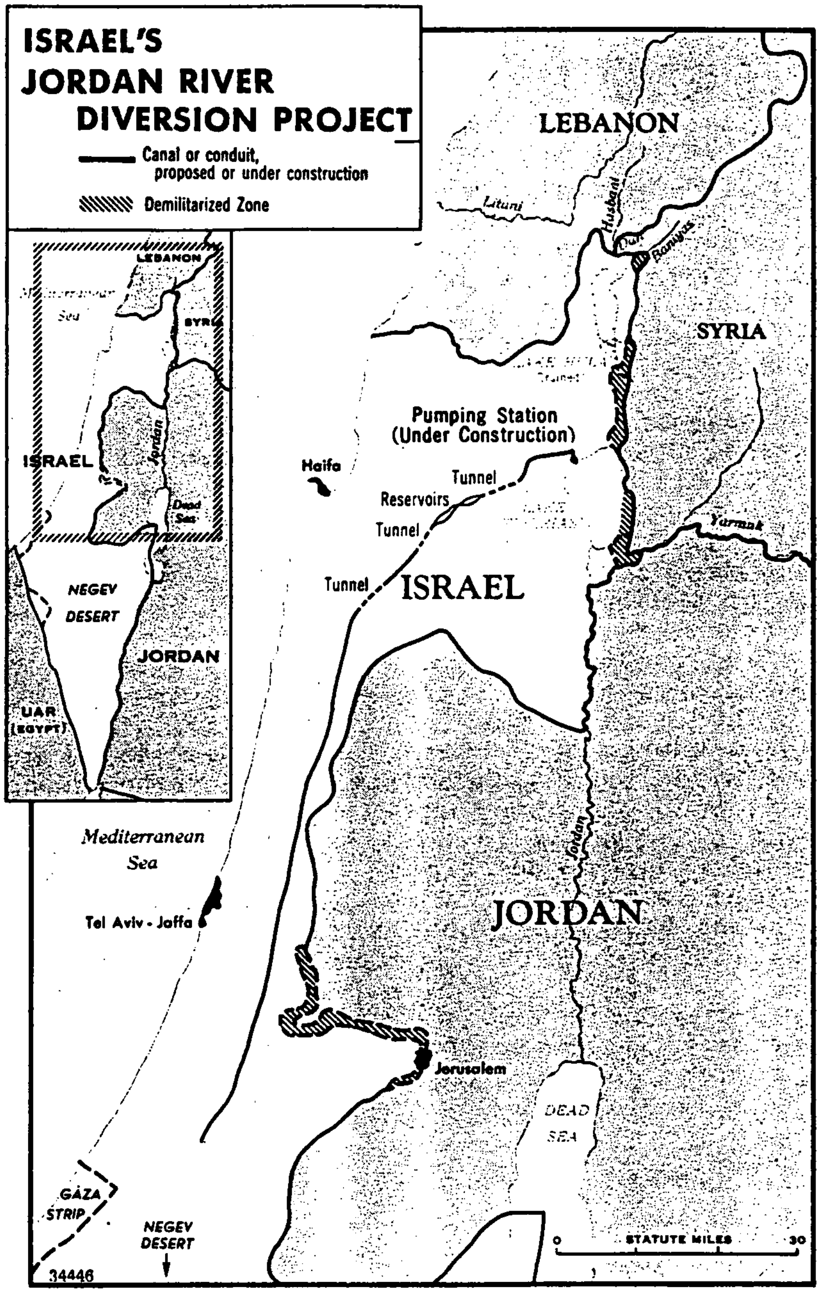
French-grant aid to Cambodia since 1956 has amounted to only $15 million. Current assistance is threefold: a military training mission of at least 250 men; cultural aid in the form of a university mission and 319 teachers in Cambodian schools; and the maintenance of about 40 experts in the fields of health and public works. In addition, a number of French nationals hired by the Cambodian Government hold positions of considerable influence in the Ministry of Finance, the Treasury, and the premier's office, and are among Prince Sihanouk's advisers.

Paris has indicated it has no intention of equaling the US aid program. Any increase in military aid probably would be limited to reconditioned and obsolete equipment, such as trucks and light armored vehicles. Increased cultural and technical assistance probably would include further help for the French university mission, more teachers, and 30 or 40 additional technical experts, especially agriculturalists.

The extension of French aid will be complicated by Cambodia's claims for compensation for losses incurred as a result of the 1958 devaluation of the French franc. Since 1958 France has asserted that a large-scale aid program would be impossible until there is agreement on an exchange rate, but a compromise may now be in sight.

Sihanouk has sought French help in maintaining Cambodia's policy of neutrality, and in recent talks with the US and the UK, France has supported his call for an international conference on Cambodian neutrality, despite US objections. Indeed, De Gaulle has consistently sought to meet Sihanouk more than half way, and Paris may now encourage Sihanouk to press this issue. (CONFIDENTIAL)

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ARABS PLAN NO OVERT ACTION AGAINST ISRAELI PROJECT

The Arab states evidently do not plan any overt military action against Israel when in late January or early February the Israelis begin pumping tests for their Jordan River diversion project, but sabotage of the project's facilities may be attempted.

The Arab military chiefs who met in Cairo in mid-December apparently decided that direct military attacks are not feasible. The chiefs reportedly agreed, however, that the states bordering on Israel should mount independent and uncoordinated clandestine operations.

The Arab League Defense Council, which meets in January, probably will approve this recommendation, but its implementation is another matter. Egyptian, Jordanian, and Lebanese officials have indicated privately that their governments have no intention of taking aggressive action of any kind against the Israeli project.

Nasir, however, told the Canadian ambassador in early December that he was worried that Syria might act unilaterally and present the other Arab states with a dilemma. Damascus will be under strong pressure to fulfill its threats against the Israeli scheme, particularly in view of the close proximity of the Syrian border to Israel's pumping station on Lake Tiberias.

Nasir's wariness about becoming involved in a war with Israel over Jordan waters was also evident in a speech he made on 23 December. He emphasized that the problem is political rather than military in nature and that the chiefs of staff cannot solve it. He called for a summit meeting of Arab presidents and kings to seek a solution.

Israel, according to the chief of Israeli military intelligence, considers there is an outside possibility that Syria might bomb or shell the pumping facility's transformer station. However, the Israelis believe the primary threat stems from former Palestinians now living in Syria, Jordan or Lebanon, who might make a dramatic effort to sabotage the project even though they probably could not cause serious damage. (SECRET NO FOREIGN DISSEM/BACKGROUND USE ONLY)

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CYPRUS DISPUTE FLARES AGAIN

Fighting between the Greek and Turkish Cypriot communities, which began on 21 December and was continuing on 26 December despite efforts to obtain a cease-fire, is the culmination of a steady growth of tension on the island during the past few weeks. The new tension followed President Makarios' presentation to Turkish Cypriot leaders of proposals for changing the Cyprus constitution. The proposals, which essentially involved removing the guarantees to the Turkish minority that had been written into the Cyprus settlement of 1959, were rejected by the Turkish Government even before the Turkish Cypriots had made their views known.

Most of the initial fighting appears to have been between Greek Cypriot police and the Turkish underground, and to have taken place in the Turkish areas of Nicosia.. The situation there deteriorated progressively during the week, as the police lost control to extremist groups of irregulars from both communities. A cease-fire, to be supervised by the British, had not been effective as of the morning of 26 December. Fighting had also continued at the port city of Larnaca; the rest of the island was quiet but tense.

In the face of these developments, the Turkish Government threatened to exercise its right under the 1959 agreement to intervene on Cyprus. Three Turkish jet fighters flew over Nicosia on 25 December, and Turkish naval units appeared off the island. Part of the 650-man Turkish garrison on Cyprus left its barracks to move into one of the Turkish quarters of the capital. Part of the 950-man Greek contingent then moved to protect Greek areas. The situation evidently prodded Athens and London into a more active role, and Greek, Turkish and British forces on Cyprus have been placed under a unified British-led command. Britain has announced it is sending 150 additional troops.

The violence may make leaders of both sides more cautious in pressing political demands. Soon after the outbreak, Makarios told the US ambassador he would go more slowly in pushing his constitutional revisions. Both ethnic groups, however, will be further embittered--particularly the Turkish community, which is believed to have suffered much the heavier casualties. (CONFIDENTIAL)

AREA NOTE

Saudi Arabia: Crown Prince Faysal appears to have weathered his latest dispute with King Saud without making any concessions. The details of a new arrangement between the two are not known, but Faysal is still firmly in control of the government. Royal Guard elements which the King ordered to positions around his palace at the height of the dispute have now been withdrawn.

The dispute centered on Saud's attempt to resume personal control of the government, which he relinquished to Faysal a year ago when his health broke. The immediate issues were variously reported to have been the new budget, which cuts funds allotted to the royal family, and Faysal's refusal to give cabinet posts to two of Saud's sons.

In blocking Saud's challenge, Faysal apparently was supported by most of the important members of the royal family. Throughout the crisis the Saudi regular army remained under the orders of the minister of defense, Prince Sultan, a Faysal adherent. Some observers have reported that the King's action has actually served to strengthen Faysal's position. (CONFIDENTIAL NO FOREIGN DISSEM)

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THE TARIFF DISPARITIES ISSUE

The tariff disparities issue which has plagued preparations for the Kennedy Round for many months originates in the fact that there are substantial differences between the EEC and US tariffs on individual items, even though over-all tariff levels are roughly the same. Because the EEC common external tariff was arrived at by averaging the tariffs of the member states, the EEC tariff schedule is characterized by the absence of "peaks and lows"; in the US schedule, on the other hand, the rates vary much more, and some individual tariffs remain very high in comparison with those of the EEC. Accordingly, the EEC and the French in particular have long insisted that a 50-percent cut in tariffs by both the US and the EEC would leave the US with substantial protection on certain items and deprive the EEC of bargaining power to effect their future reduction.

The disparities issue was believed to have been settled at the GATT ministerial meeting last May with a formula which provided that tariffs on industrial items would in general be reduced equally and across the board, except that "special rules" would apply "where significant adverse effects on trade would result from disparities in tariff levels." In fact, however, this formula merely shifted the argument to the problem of determining what disparities are "significant" or "meaningful in trade terms." Because the "special rules" would mean in most cases a smaller tariff reduction by the EEC than by the US, the EEC has attempted to maximize the area to which these rules would apply while the US has sought to minimize their application.

After lengthy negotiation, a GATT subcommittee reached a considerable measure of agreement last month on a formula which would identify a "significant" tariff disparity in the first instance as one in which the high rate is at least 30 percent of value and at least 10 percent above the lower rate. Because this formula would identify some 850 US items as eligible for "special treatment," the subcommittee proposed seven additional qualitative criteria which would reduce considerably the number of eligible items. The three to which the US attaches special importance would (1) require that there be substantial imports of the item concerned from the high tariff country into the low; (2) exclude items where there are substantial imports into the high tariff country; and (3) exclude items on which the low tariff country maintains quotas.

The formula approved by the EEC on 23 December would substitute for the 30/10 criterion a 2/1 formula. A disparity would be identified as one in which the high tariff is twice as high as the low one, apparently with the additional qualification that, in most cases, there would have to be a ten-point percentage spread between the two rates. This formula would provide for special treatment for far more than 850 items, including items of special US export interest. The arrangements for qualitative criteria also seem to have been modified to the US' disadvantage.

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THE COMMON MARKET CRISIS

The Common Market appears to have averted disaster for the second time in less than a year. The eleventh-hour agreements reached on agricultural policy on 23 December are apparently sufficient to discourage De Gaulle from carrying out his threat to break up the community. Moreover, the Germans and Dutch succeeded in extracting limited commitments from Paris on EEC participation in the Kennedy Round of tariff negotiations. These agreements do not cover all the outstanding issues, however, and the manner in which they were reached will leave a residue of bitterness. Nor is it certain that major US interests have fared well.

The main agricultural elements in the "package" deal are the regulations concerning intracommunity trade in beef, rice, and dairy products and the rules governing the community farm fund. Their effect is to open the large West German market to farm exports of France, Italy, and the Netherlands--generally at a substantial advantage over the exports of nonmembers. Although approval of these and the financial regulations is an important step forward, the key question of grain price unification is still unsettled. Further consideration of the formula proposed by Commissioner Mansholt has been delayed until next year.

The agreement on a Kennedy Round position is likewise an advance for the community, but from the US view not necessarily favorable. On the long-standing problem of tariff "disparities," the EEC adopted a formula which would exempt from the proposed 50-percent linear reduction in tariffs a far larger number of items than the US hoped for. The EEC position on farm products in the trade negotiations--although an improvement over the initial Mansholt proposals--also leaves much to be desired from the US view. In general, the EEC proposes that, if its levy system operates in such a way as to cause difficulties for the exports of nonmembers, then the EEC Commission will be called on to propose "appropriate," but unspecified, measures. These would not apply if it is technically impossible to determine how much protection is actually involved in the levy system.

The general relief within the community which greeted these agreements reflects both the depth of the crisis and some optimism that the Common Market's unity may have been restored. The prominent role played by the EEC's commission in achieving the compromise has in particular encouraged those who hope to strengthen the community's institutional structure.

In France the conviction was evidently widespread, however, that both Bonn and The Hague were quite prepared to see the French "leave" the Common Market, and in the event of its breakup, to seek alternative ties with the Outer Seven. Moreover, while it may prove healthy that Bonn "stood up" to De Gaulle in this instance, its motive was strongly colored by a desire to protect its inefficient farmers. Nor does it augur well for US-EEC relations that the French blame the US for much of the opposition they encountered. (SECRET NO FOREIGN DISSEM)

UK-US FRICTIONS OVER SHIPPING POLICY

British shipping and official circles are incensed over recent US demands for information relating to rate discrimination against US exports. The British Government has advised against compliance on the grounds that this information is commercially confidential, and that the US cannot demand what the UK Government cannot obtain.

Following a recent congressional investigation into alleged rate discrimination against American exports, the US Maritime Commission asked the North Atlantic Freight Conference to explain the differentials on a long list of items, setting a 20 January deadline for compliance under penalty of heavy fines. The US position is that US exporters are being penalized because outward rates are higher on the average than the inward rates.

British and other shipping lines regard the differentials as economically justified. The tonnage of US exports is much greater than import tonnage, and shipping lines--anxious to avoid half-loaded or in-ballast westbound voyages--have traditionally charged lower rates for items imported into the US than for exports from this country.

Thus, what are seen as American efforts to regulate international shipping lines in order to improve the unfavorable US balance of payments have caused increasing rancor in Britain. Before Parliament adjourned for its Christmas recess on 20 December, some Conservative MPs called for retaliatory restrictions on US ships arriving at UK ports. Although the MPs did not specify what restrictions they had in mind, the government cannot afford in the present pre-election period to leave itself open to charges that it is not attentive enough to domestic interests.

The Douglas-Home government, while hopeful of some compromise before the 20 January deadline, is busily lining up international support. At the recently concluded conference of transport ministers of 10 European maritime nations, Britain proposed that Japan be invited to join the united front of European maritime countries in a general protest against US shipping policies, thereby aligning roughly three quarters of the world's shipping business against the US position. Japan agreed to do so, and the collective protest was filed with the State Department on 23 December. (CONFIDENTIAL NO FOREIGN DISSEM)

WEST GERMAN POLITICAL DEVELOPMENTS

The opening of the Berlin Wall during the holiday season and the death of Social Democratic Party (SPD) chairman Erich Ollenhauer have placed Willy Brandt once again in the center of the German political stage.

The agreement to open the Wall resulted from Brandt's unceasing efforts to ease conditions for Berliners. His willingness to reach agreement with the East Zone authorities on the pass issue is being criticized by some Christian Democratic Union (CDU) leaders and by the CDU-oriented press in West Germany. Brandt, however, is banking on the expectation that most West Germans, like the Berliners, will approve his action. He has even hinted that there may be further negotiations with the East Germans to extend the period of the passes beyond the 5 January cutoff date. There is also speculation that both East and West Germany will find the pass agreement a model for agreement on other issues.

Brandt, who was the most logical choice, was named acting chairman of the SPD immediately after Ollenhauer's death on 14 December. Deputy Chairman Herbert Wehner has proposed that Brandt's position be formalized at a special party convention next month. Fritz Erler, the party's foreign and defense expert, is slated to take Brandt's place in the hierarchy as second deputy chairman. As the SPD leader, Brandt would stand to be candidate for chancellor in the 1965 general elections. If current opinion polls are any indication, the SPD will give the CDU a strong race in that contest.

Brandt, however, has not yet committed himself, since to accept the SPD chairmanship might require him to resign as mayor of Berlin and move to Bonn. In so doing he would have to operate at a distance from his political bastion.

Whatever Brandt decides, the SPD is bound to miss the conciliating influence of Ollenhauer, who was able to hold together the often highly antagonistic factions of the party. Brandt, with his ideas of greater flexibility in foreign policy, may be expected to clash more frequently with Wehner, who--despite his Communist past--has come to represent the SPD's right wing. (SECRET NO FOREIGN DISSEM)

AREA NOTES

NATO: The NATO ministerial meeting in Paris, which ended on 17 December, avoided serious discussion of the more contentious issues facing the alliance. There was, for instance, only passing reference to the matter of nuclear sharing. While NATO's military posture was generally recognized as still inadequate, the Force Planning exercise--which is designed to help correct this situation--was not discussed at all. The dispute over basic strategy, the chief stumbling block to the exercise, was put off until after De Gaulle's press conference sometime in January.

All but the French agreed that the alliance should explore possibilities of negotiating with the Soviets on outstanding East-West issues. The Germans, as usual, indicated some reservations because of their sensitivity regarding Berlin and German reunification. The question of restricting Western credits to the Soviet bloc was reserved for future consideration. (SECRET NO FOREIGN DISSEM)

Iceland's near general strike was settled on 21 December when labor and management agreed to a 25-percent wage increase. The 11-day work stoppage was led by Communist-dominated unions seeking, as in the past, to force the resignation of the Conservative - Social Democratic government by discrediting its economic policies. The settlement is regarded as a political victory for Prime Minister Benediktsson's government, since the Communists were unable to maintain a solid grip on labor.

The settlement, however, will intensify inflationary pressures and will probably force Benediktsson to take extraordinary measures to maintain economic stability. For political reasons he will try to avoid another currency devaluation, but it is doubtful that the government can maintain its economic stabilization program without resorting to this measure. (CONFIDENTIAL)

DOMESTIC POLITICS IN CUBA

Fidel Castro is continuing his effort to reduce the influence of the veteran Communists who were leaders of the Moscow-oriented, pre-revolutionary Communist party of Cuba. Castro's campaign against them, launched in a bitter attack in March 1962, subsequently seemed to lose steam. Recent reports from knowledgeable clandestine sources, however, indicate that the old liners are again on the defensive and are likely to suffer further in government shake-ups which may be in the offing. Castro nevertheless continues to move slowly in order to avoid undue disruption within his regime.

The only major veteran Communist figure to remain in Castro's good graces is Carlos Rafael Rodriguez, the head of the National Agrarian Reform Institute. Rodriguez' position has actually been strengthened in recent weeks with the raising of his job to cabinet level. He has evidently convinced Castro of his personal loyalty and of his ability as an administrator. It is also possible that Rodriguez performs a useful and trusted liaison role between Castro and Soviet leaders. He returned to Havana on 22 December after a two-week trip to the USSR and several Soviet satellites where, according to press accounts, he was in contact with high-ranking Communist Party officials.

The old-line Cuban Communists remain strong, according to a recent clandestine report, in the intermediate and lower echelons of the military and party hierarchies. Wherever possible, they continue their "sectarian" efforts to secure positions for their comrades at the expense of Fidelistas. A clandestine source reported hearing "rumors" in high regime circles late last month that veteran Communists have banded together in clandestine cells to work against Castro.

Che Guevara continues to be the Cuban leader most openly critical of the Soviet Union and the most insistent on the "necessity" of accelerating the revolution in Latin America. Fidel Castro is said to agree with Guevara's position, but awareness of Cuba's own self-interest still compels him to be more cautious in pursuing policies that could be interpreted as anti-Soviet. It nevertheless remains a key regime policy to encourage Communist revolution in Latin America.

A clandestine source who is a high-level Cuban diplomat asserts that Cuban leaders privately recognize that popular discontent with the regime is widespread. He claims, however, that they are confident their unpopularity has reached its nadir, and that they are beginning to make up lost ground. They expect, for instance, that economic difficulties--a major source of discontent--will be largely overcome within three years. The strategy of the government, this source reports, is to hold on until the economy improves and until Cuban subversive efforts elsewhere in Latin America result in the establishment of one or more Communist allies in the hemisphere. Then, the regime feels, it will be secure. (SECRET NO FOREIGN DISSEM/BACKGROUND USE ONLY)

DOMINICAN REGIME FACES NEW POLITICAL CHALLENGES

The killing of 15 guerrillas by Dominican Army troops on 21 December apparently removes the last pocket of insurgents opposing the government. However, the incident could provoke dangerous political repercussions.

Emilio De Los Santos, head of the governing military-installed triumvirate, resigned in protest over what he regarded as the brutal and unnecessary killing of the insurgents, including the president of the pro-Castro 14th of June Political Group. The army commander of the area in which the incident took place insists the deaths were the unavoidable result of a fire fight. If stories of armed forces "brutality" become widespread, however, they could provoke dangerous hostility toward the regime from rank-and-file Dominicans, who recall the repressive measures of former dictator Trujillo.

The resignation of De Los Santos precipitated frantic maneuvering within the government among civilian and military elements. Only the prompt appointment of Foreign Minister Donald Reid to the vacant post in the triumvirate appears to have helped avert a serious political crisis for the moment.

The triumvirate has asked the cabinet--which was chosen from and is responsible to six minority political parties--to resign to permit the appointment of a more independent group. This move has prompted strong protests from four of the splinter parties backing the regime, who stand to lose patronage; the outcome is unclear.

However, the National Civic Union, the only sizable party in the government, backs the cabinet reorganization. More important, the key leaders of the armed forces are providing the triumvirate with their support, which could prove crucial in a political showdown. (SECRET NO FOREIGN DISSEM)

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BRAZIL

Further changes in the Brazilian cabinet are expected following the resignation last week of Finance Minister Carvalho Pinto. A moderate leftist, Ney Galvao, was appointed Pinto's successor, but there remains a possibility that Leonel Brizola--who had been actively pushed for the post by the extreme left--may eventually receive some ministry. There is widespread belief in the army that War Minister Jair Ribeiro will also be replaced in the near future. As one responsible Brazilian commentator has remarked, with Goulart "every minister is an interim one."

Ney Galvao's appointment actually reduces the previously slight prospect that Brazil's critical financial problems would be handled effectively. Galvao's qualifications in the economic field are weak at best and his record as head of the Bank of Brazil does not command confidence within the business community. Before taking his new post, he served as minister without portfolio in charge of coordinating foreign trade policies, a job he performed without any particular distinction.

Although his views are perhaps somewhat to the right of Goulart's, Galvao can be expected to toe the adminstration line faithfully. Moreover, Galvao's appointment may be a temporary expedient designed to allay fears that Brizola would succeed Pinto. Galvao is a personal friend of Brizola and there is speculation that Brizola will, in fact, eventually move into the Finance Ministry.

The new finance minister inherits almost insurmountable economic and financial problems. Chief among these are a rampant inflation that may see the cost of living increase 80 percent this year, and a staggering foreign debt involving approximately $1 billion in payments due over the next two years.

The severity of the economic situation and Goulart's apparent intention to assume greater personal direction over financial policies increase the possibility of radical measures that might be detrimental to foreign creditors and investors. Goulart reportedly is considering nationalization of all public utilities and cancellation of mining concessions. Measures such as these could lead to further deterioration of Brazil's economic position. (SECRET)

AREA NOTE

Bolivia: The political competition between Bolivian Vice President Juan Lechin and President Victor Paz Estenssoro is bound to intensify sharply as each maneuvers to line up support for the presidential nomination at next month's convention of the Nationalist Revolutionary Movement (MNR). Lechin probably still hopes to pull an upset by dislodging Paz or at least to demonstrate sufficient strength to assure himself of retaining his vice-presidential post. Paz seems certain, however, to be able to control the party's convention, assure his renomination, and designate his own running mate.

If the forthcoming convention repudiates Lechin, he may well withdraw from the MNR and establish a "popular front" political party. He probably could count on the support of political groups ranging from leftist extremists to disgruntled factions within right-wing parties. It would seem unlikely, though, that these disparate groups could coalesce into an organization powerful enough to defeat Paz' well-organized machine in the elections set for June. (SECRET)

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